

**Virginia Information Technologies Agency
Discussion of Proposed New Rates and Rate Changes
Fiscal Year 2005**

Proposed rate changes to Legacy billing elements

IBM Tape Storage continues to under-recover. One of the primary contributors was the implementation of virtual tape processing at roughly the same time that a rate reduction was implemented. Due to the size of the fund deficit (\$4M) it is unreasonable at this time to increase the rate in an attempt to recover the deficit. The proposed rate increase is intended to break even in the current and future years.

IBM Disk Storage is over-recovering and has accumulated a positive fund balance (\$4M). The primary contributors are continued decreases in the cost of disk storage devices and gradual increases in usage. The proposed rate reduction in **IBM Disk Storage** is intended to accomplish two objectives. First, the proposed rate is set for VITA to break even in the current and future years, but not to reduce the fund balance. Second, the total annual dollar value of the reduction will offset the rate increase in **IBM Tape Storage** therefore making the net of these two changes expense neutral to our customers. Since the customers using **Tape and Disk Storage** are the essentially the same, it is very important that VITA implement these two rate changes simultaneously.

Router Services is under-recovering. Increased demands placed on VITA's network led to the purchase of new equipment with greater capacity. Also the increased emphasis on business continuity prompted VITA to purchase additional (fail over) equipment. Due to the size of the fund deficit (\$1.5M) it is unreasonable at this time to increase the rate in an attempt to recover the deficit. The proposed rate increase is intended to break even in the current and future years.

The **Covanet** billing element for data circuits was adequately recovering until the new contract with MCI went into effect in November 2003. As a result of the contract, MCI decreased their charge to VITA. Since VITA's charging mechanism for Covanet uses a pass-thru model, the net effect was a decrease in revenue with no decrease in VITA's fixed expenses to manage the service. The proposed rate increase is intended to break even in the current and future years.

Proposed new rates for existing Legacy services

The **EBARS Tape Backup** service has been operational long enough to formulate a predictable trend and is currently under-recovering each year. It has a \$384K negative fund balance that is projected to triple by the end of FY05, based upon VITA using the existing IBM tape usage rate. We are fast approaching the capacity of the current configuration. Additional funds are budgeted for FY05 to expand the capacity to accommodate the projected increase in demand from consolidation and new services. The proposed rate increase is set for VITA to break even in the current and future years, but not to recover the fund deficit.

The projected expenses to be recovered from customer billings were reduced by 30% to account for VITA usage. That amount was redistributed as an indirect expense to be shared by all billing elements in keeping with VITA internal applications that support all VITA services and

functions. Additionally, 40% of the projected expenses were allocated to the proposed new **EBARS Tape Storage** billing element, which is discussed next.

The **EBARS Tape Storage** billing element is being proposed as a new charging mechanism to recover the cost of services currently provided. As noted above, 40% of the expenses in the EBARS Tape Backup billing element are related to the ongoing storage of tapes rather than the process of creating the backup tapes. Tape storage for VITA internal applications represents approximately 40% of the total volume of tapes stored each month. The projected expenses to be recovered from customers were reduced by 40% to account for VITA usage. This new billing element is proposed to more accurately recover costs based on the activity that is driving the costs. Consolidation and new service implementation will continue to increase the demand for tape backup and storage.

Tape Vaulting is a service VITA has provided for several years with costs expected to be recovered by the IBM and Unisys Tape Storage charges. Since Y2K and 9/11, there has been a continued increase in the demand for tape vaulting. Consolidation, new service implementation and increased awareness of the need for continuity of operations will continue to increase the demand for tape vaulting. This new billing element is also proposed to more accurately recover costs based on the activity that is driving the costs.

The use of **Key Fobs** to authenticate users and secure data transmissions increased as the need for security increased. Use of Key Fobs requires a server with specific software. VITA implemented the server environment using ACE software and offered the service to current and future Key Fob customers. The cost of building the service was originally considered small relative to other service offerings, thus a recovery rate was not developed. Due to the increased use of Key Fobs and the expected continued use and growth, a recovery rate for use of the **ACE Server** to support Key Fob use is proposed.

Proposed new rates for new services

As the server environment at VITA continues to grow and many opportunities exist for implementing shared services, disk storage has emerged as an opportunity to reduce costs by installing large disk storage devices that can be shared by multiple applications and customers. The proposed **Server Disk Storage** service arose out of consideration for the large quantities of storage necessary to support applications such as Oracle and Oracle Financials. While the projected cost and usage for the upcoming year are relatively small compared with legacy services, this proposal gives VITA the opportunity to build the shared service on a small scale with the ability to grow as consolidation and additional shared services are implemented.

Oracle Financials is one of the newest opportunities for VITA to develop a shared services environment. The proposed rate is based on VITA hosting the servers, centralizing the software licensing and providing engineering support for Unix and Oracle as well as providing the facility, security, capacity planning and all other activities associated with an application hosting service. Agency costs will be less than their current expenses as a result of this shared environment.

Another new service VITA plans to implement is called **GESI**. GESI stands for “Government to Government (G2G) Enterprise Services Interface”. This proposed service involves the use of MITEM Human Services Interface software to facilitate access to and data retrieval from multiple systems as required by Social Service workers in local government offices. The proposal includes the consolidation of software licensing at VITA and VITA hosting of the application server(s).

Future Plans

Other shared opportunities which provide the opportunity to reduce the Commonwealth's overall IT investment via individual agency systems that are in various stages of development include **Online Enterprise Licensing, StateWide Alert Network, Shared Oracle DB, Consolidated Email and Web Hosting**. As these services are fully defined and costs are known, recovery rates will be developed and presented to JLARC for approval.